

**Chapter 11:
Compensation Practices
(Performance – based)**

THIRD EDITION

HUMAN RESOURCES IN HEALTHCARE

Managing for Success

Part Three | Compensation & Benefits



Third Function: Compensation & Benefits

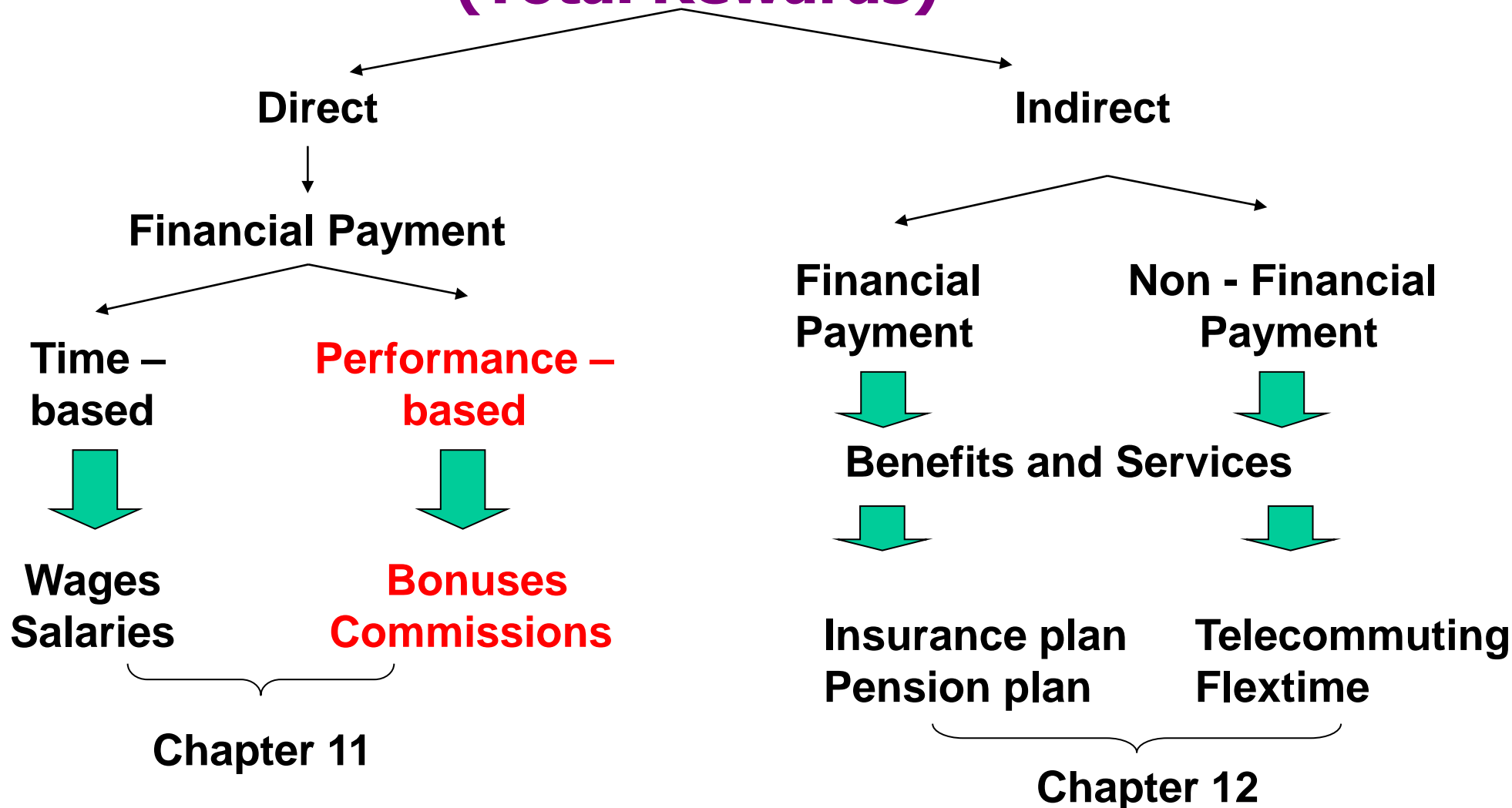


Compensation Practices

Benefits



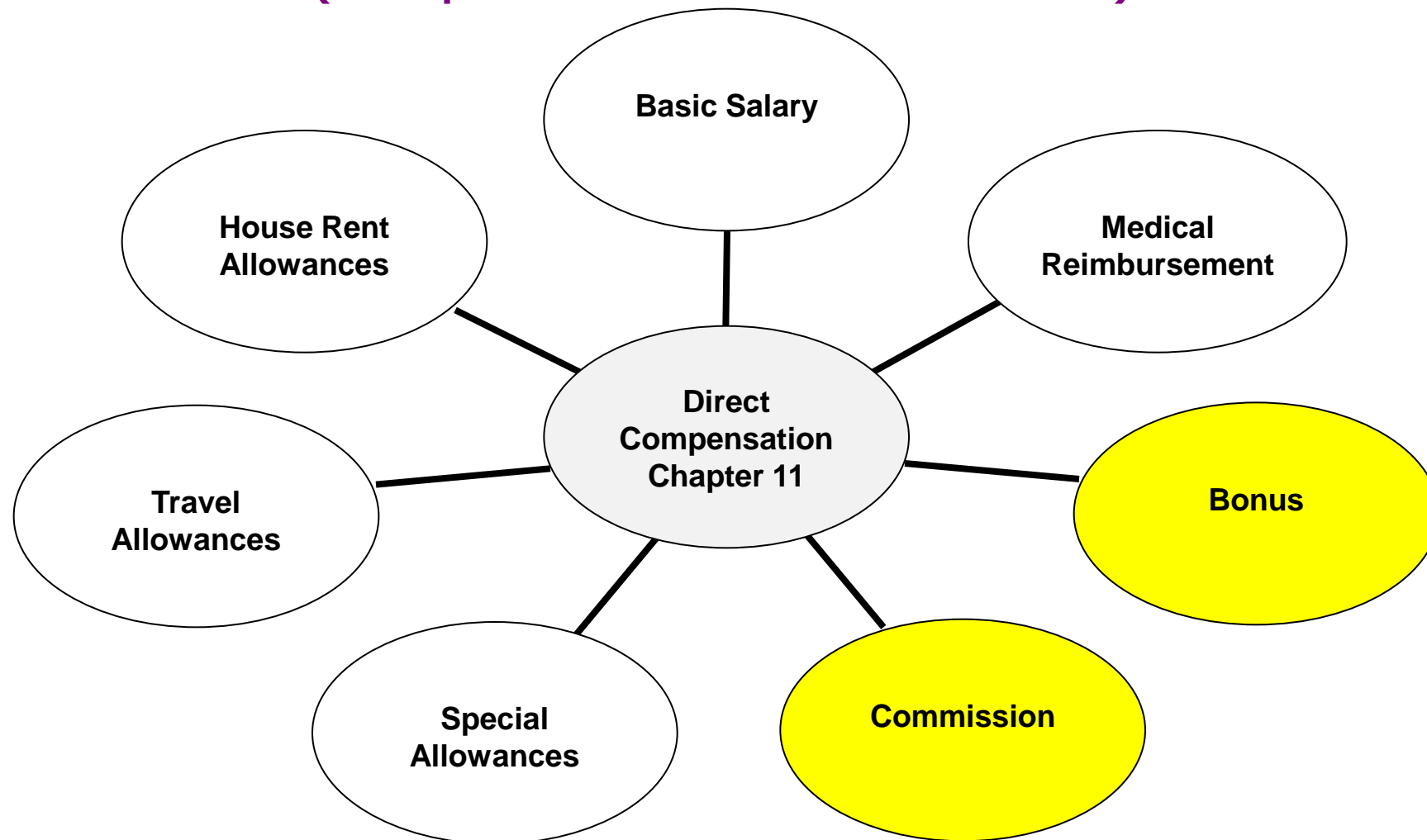
Employee Compensation (Total Rewards)





Employee Compensation

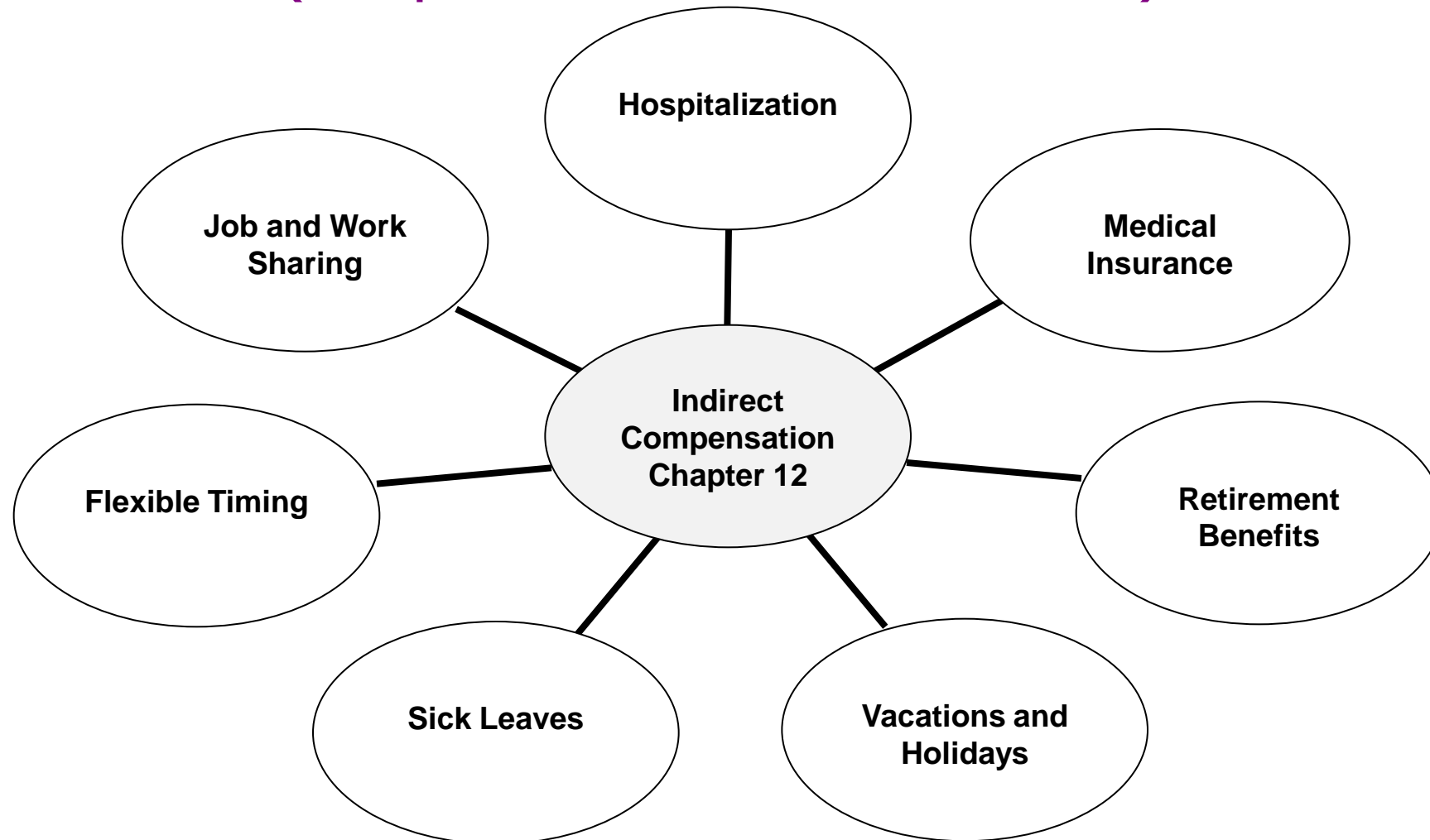
(Chapter 11: Direct Rewards)





Employee Compensation

(Chapter 12: Indirect Rewards)





Learning Outcomes

After completing this chapter, you should be able to:

- Explain how you would apply motivation theories / psychological insights in formulating an incentive plan
- Discuss alternative types of incentive plans
- Avoid the problems faced in designing and implementing pay-for-performance plans
- Know how to implement an effective incentive plan



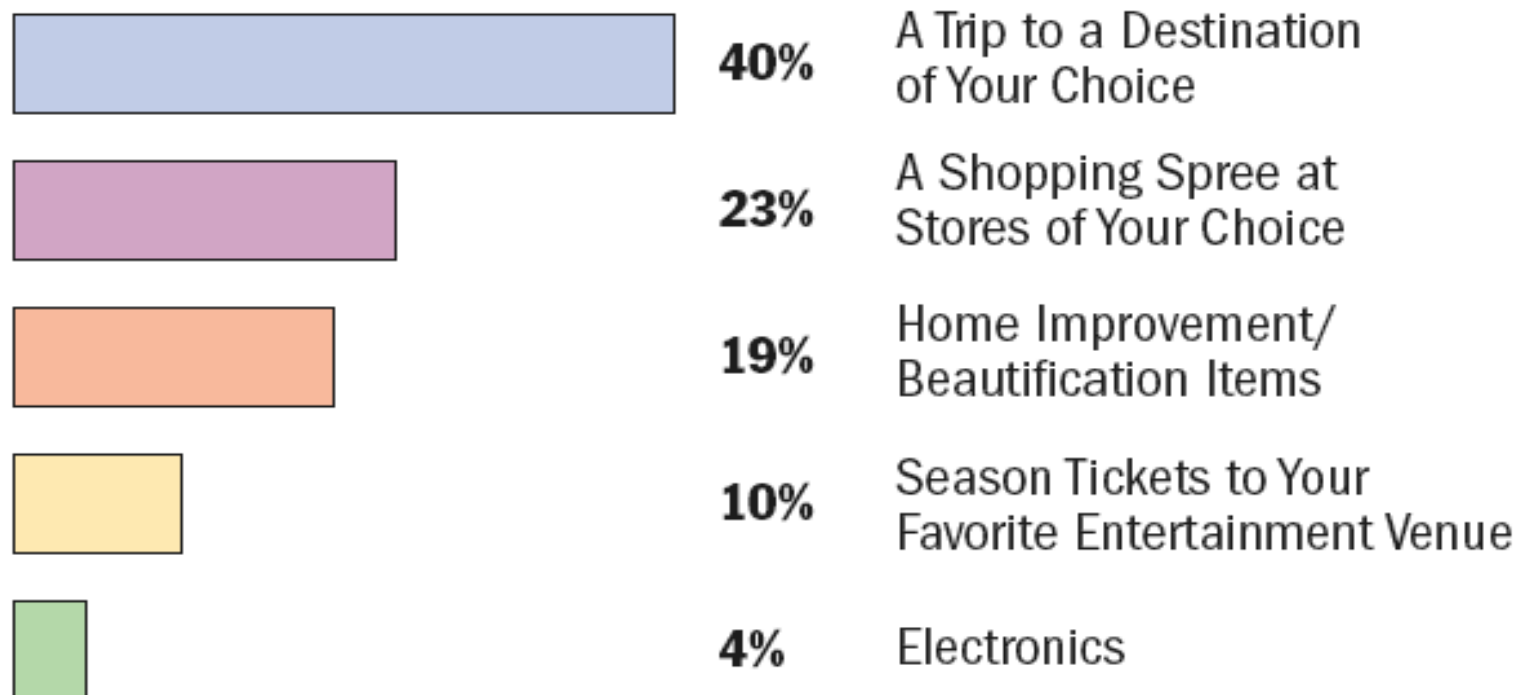
Motivational Theories

- There are three sets of psychological insights that the managers will find useful in devising his/her incentive plan.
- These are the concepts of:
 - A. Individual differences
 - B. Psychological needs and motivation
 - C. Employee expectation



A. Individual Differences

Employee Preferences for Noncash Incentives



*The survey polled a random nationwide sample of 1,004 American adults.

Source: Darryl Hutson, "Shopping for Incentives," *Compensation and Benefits Review*, March/April 2002, p. 76.

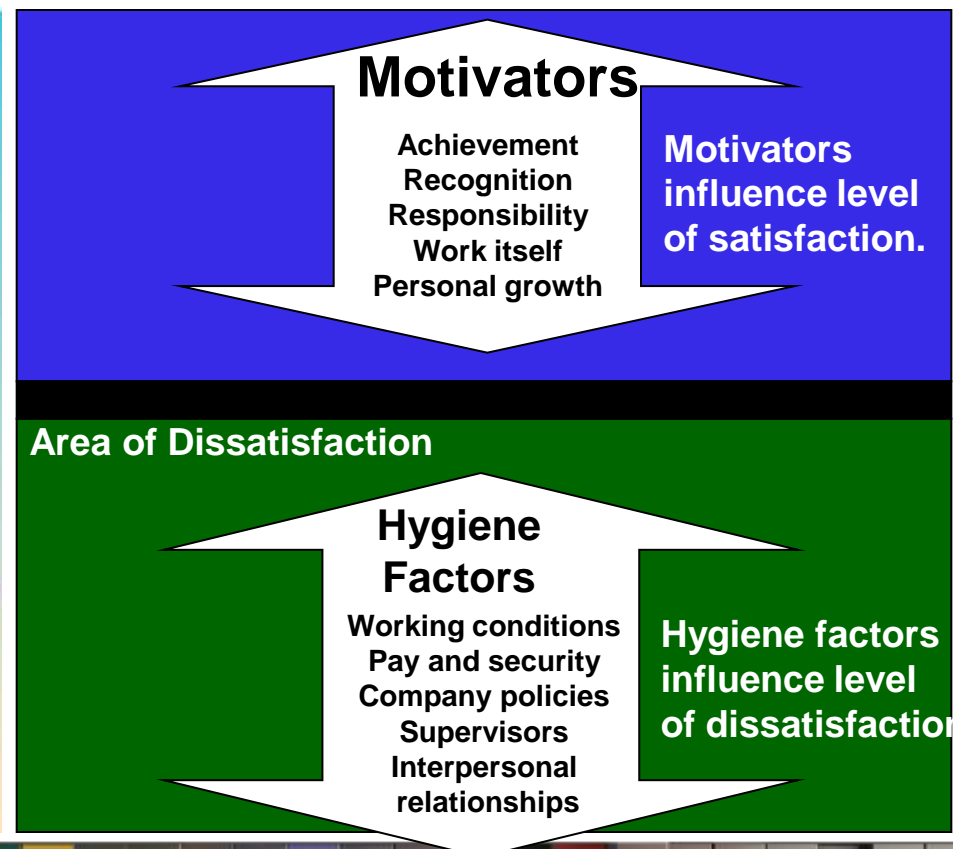


B. Psychological Needs and Motivation

Abraham Maslow's Hierarchy of Needs



Herzberg's Hygiene Motivator theory

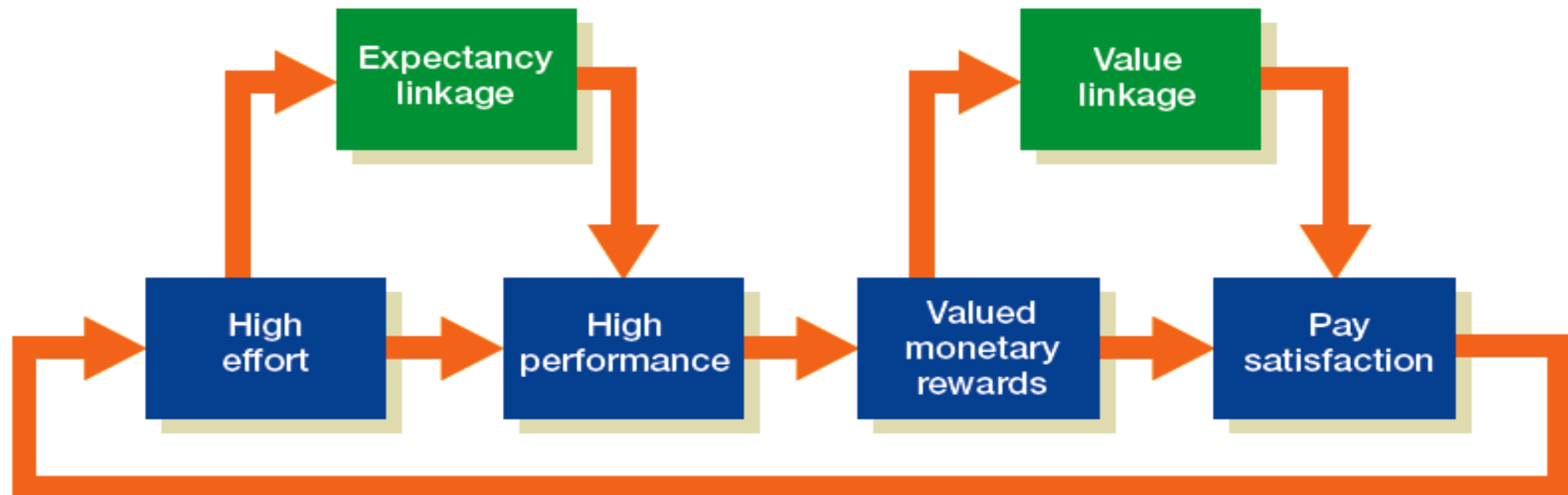




C. Employee Expectation

$$M = EIV$$

Figure 9-2 Pay-for-Performance and Expectancy Theory





Pay for Performance

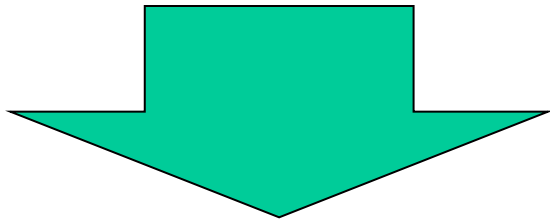
Managers evaluate the work of their employees according to pre-established goals, standards, or company values.

Based on this judgment, employees are given variable financial rewards.

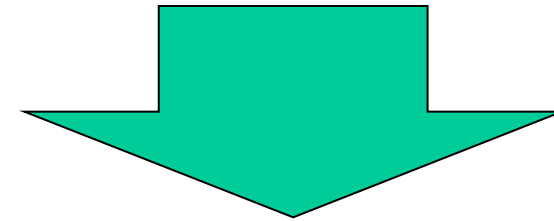




Pay-for-performance programs come in two types in healthcare



***I. Productivity-focused
pay for performance***

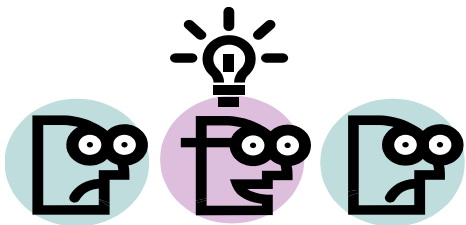


***II. Quality-focused
pay for performance***



I. Productivity-focused pay for performance

- *Seeks to maximize organizational profitability by tying financial incentives to individual employee productivity.*



1. Individual



2. Group



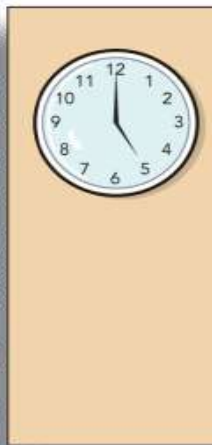
3. Organizational



Types of Individual Incentives



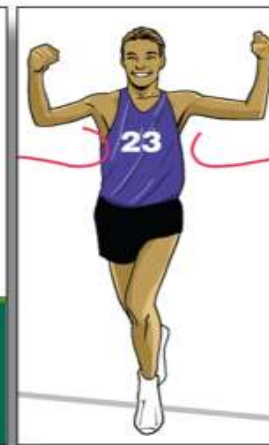
Piecework Rates
(Straight or Differential)



Standard
Hours Plan



Merit
Pay



Performance
Bonus

1. Individual Incentives

➤ A. *Piecework Plans*

- The worker is paid a sum (called a *piece rate*) for each unit he or she produces.
 - **Straight piecework**
 - **Standard hour plan**

➤ B. *Merit pay*

- A permanent cumulative salary increase the firm awards to an individual employee based on his or her individual performance.



1. Individual Incentives

➤ *C. Incentives for professional employees*

- Professional employees are those whose work involves the application of learned knowledge to the solution of the employer's problems.
 - Lawyers, doctors, economists, and engineers.

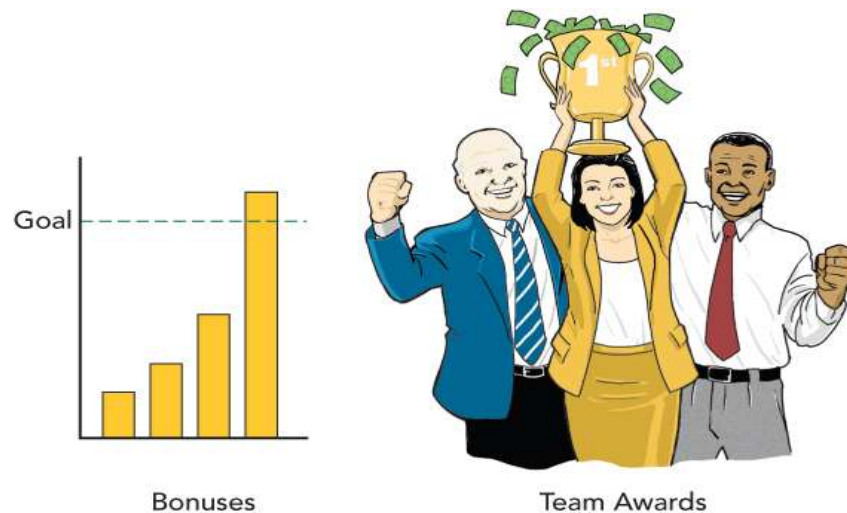
➤ *D. Recognition-based awards*

- Recognition has a positive impact on performance, either alone or in conjunction with financial rewards.
- Examples: Personalized plaques, parties, employee of the month, dinner



2. Team or Group Incentives

- A plan in which a production standard is set for a specific work group, and its members are paid incentives if the group exceeds the production standard.





2. Team or Group Incentives

Pros

- *Team incentives make a lot of sense (surgical team)*
- *Performance reflects –not just individual- but team effort.*
- *Reinforce team planning, problem solving.*
- *Reduce jealousy between employees.*
- *Facilitate training*

Cons

- *Worker's pay may not be proportionate to his/her effort.*
- *De-motivation of hard workers.*
- *Workers who share in the team's play but don't put their hearts into the effort can be a problem.*

3. Organization-wide Incentives

- ***1. Profit Sharing Plan***
- ***2. Employee Stock Ownership plan (ESOP)***
- ***3. Gain sharing Plan (Scanlon and others)***

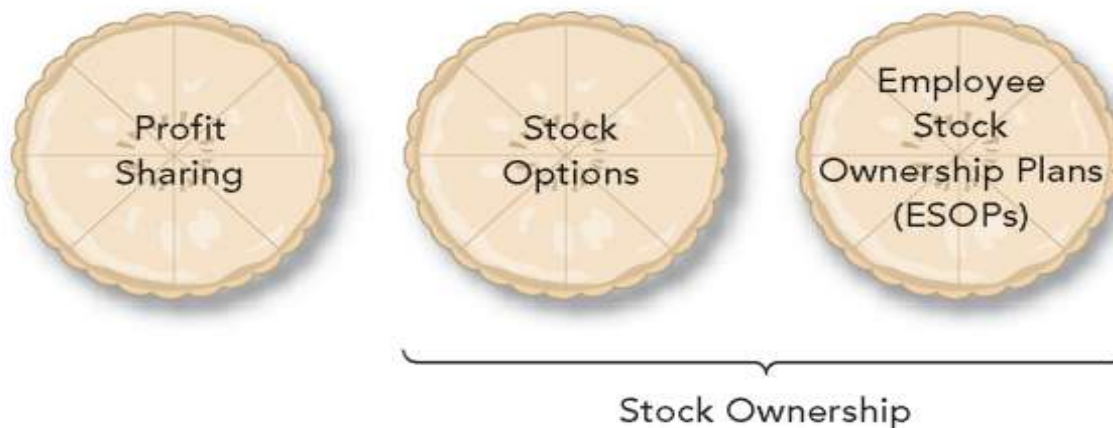
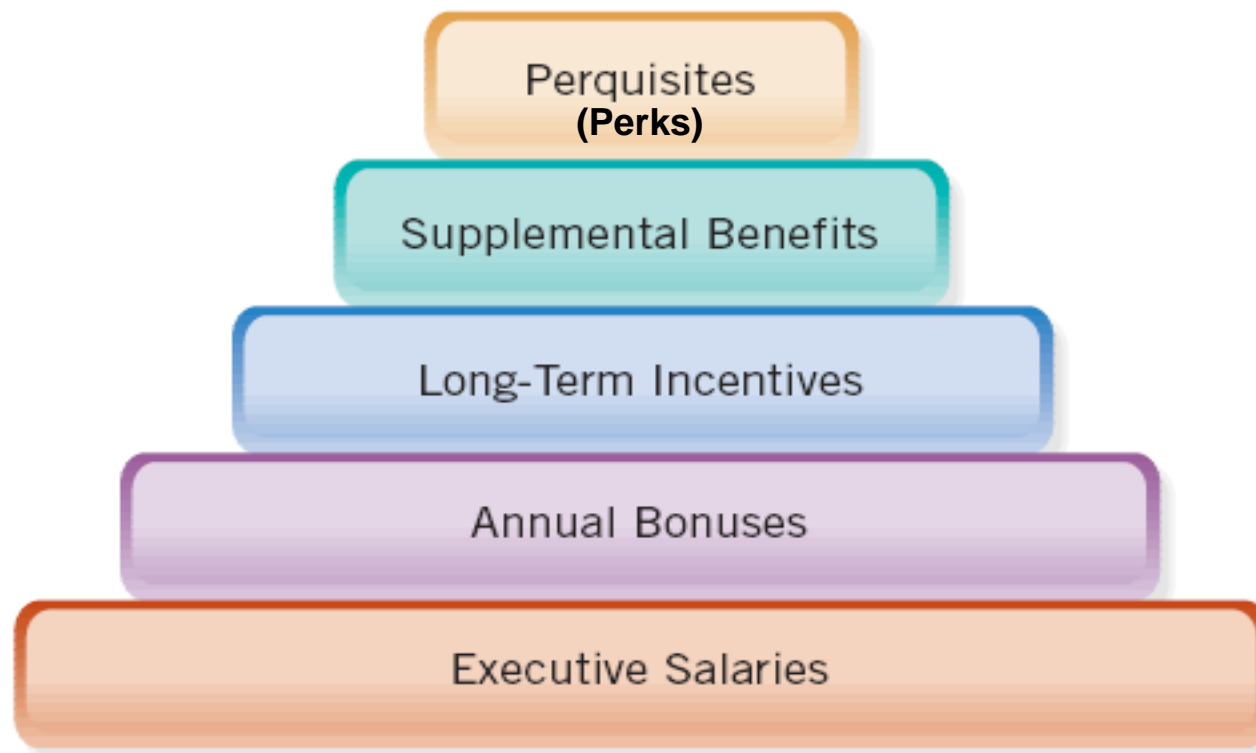




FIGURE 14–10 *Executive Compensation Components*





Short-Term Incentives for Managers and Executives

➤ *Annual bonus*

- Plans that are designed to motivate short-term performance of managers and are tied to company profitability.



Long-Term Incentives for Managers and Executives



➤ *Stock option*

- The right to purchase a specific number of shares of company stock at a specific price during a specific period of time.
- The executive thus hopes to profit by exercising the share in the future but in today's price.
- Options have no value (go “underwater”) if the price of the stock drops below the option's strike price (the option's stock purchase price).



II. Quality-focused pay for performance

- *Pay-for-quality programs reward activities and practices that are likely to improve healthcare outcomes, including:*
 - Increased prevention screenings
 - Ensuring up-to-date patient vaccinations
 - Investing in IT designed to reduce medical errors
 - Consistently adhering to evidence-based medical guidelines



Why Incentive Plans Fail?

- *Performance pay can't replace good management.*
- *You get what you pay for. (production versus quality)*
- *"Pay is not a motivator." (psychological needs)*
- *Rewards punish (do this or you won't get that)*
- *Rewards rupture relationships.*
- *Rewards can have unintended consequences. (cheating)*
- *Rewards may undermine responsiveness.*
- *Rewards undermine intrinsic motivation. (Edward Deci)*



Implementing Effective Incentive Plans

1. *Ask: Is effort clearly instrumental in obtaining the reward?
(does the plan make sense ?)*
2. *Link the incentive with your strategy.*
3. *Make sure effort and rewards are directly related.*
4. *Make the plan easy for employees to understand.*
5. *Set effective standards (high but reasonable).*
6. *View the standard as a contract with your employees.*
7. *Get employees' support for the plan.*
8. *Use good measurement systems (ensure fairness).*
9. *Emphasize long-term as well as short-term success.*
10. *Adopt a comprehensive, commitment-oriented approach.*



Home Assignment

EXPERIENTIAL EXERCISE – CASE P 315 (3 QUESTIONS)